

## CHAPTER II

### CAG's Audit Mandate and Extent of Audit

#### 2.1 Authority of the CAG for audit of receipts

**2.1.1** Section 16 of the CAG's DPC Act 1971 authorizes CAG to audit all receipts (both revenue and capital) of the Government of India and of Government of each state and of each Union territory having a legislative assembly and to satisfy himself that the rules and procedures are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed. Regulations on Audit & Accounts, 2007 lay down the principles for Receipt Audit.

**2.1.2** Compliance audit of Customs revenue covers transactions involving levy and collection of Customs Duties, any other levies of Customs, transactions of imports and exports undertaken under various schemes implemented under the Foreign Trade policy and specific compliance areas reviewed by audit from time to time. This year the compliance audit had reviewed the levy and administration of anti-dumping duties. The transactions covered in this report pertain to FY 2018, but in some cases prior period transactions have also been reviewed for getting a holistic picture. This report is based on the audit conducted up to the FY18.

#### 2.2 Scope of Audit

**2.2.1** CAG examines the records, selected on a risk based sample, of the various functional wings of the Central Board of Indirect Tax and Customs (CBIC), along with the sample of transactional records of Customs field formations relating to imports, exports, refunds. CAG also examines records relating to departmental functions like adjudication and recovery of arrears and preventive functions.

**2.2.2** Records of concerned Regional authorities under DGFT in respect of customs exemption benefits availed by importers/exporters under Foreign Trade Policy are examined. Similarly CAG conducts audit of Development Commissioners of SEZ and EOUs, including certification of accounts of government owned SEZ.

#### 2.3 Audit Universe

**2.3.1** Audit universe for Customs receipt audit comprises of Customs field formations and the ports (both EDI linked and non-EDI), regional licensing authorities under DGFT and Development Commissioners of SEZ/EOU.

**2.3.2** Customs field formations are divided into 11 Customs Zones and 12 Combined (customs and GST) Zones with 23 Chief Commissioners and 67

Principal Commissioners/Commissioners. As on 1 April 2018, there were 498 Deputy/Assistant Commissioners out of which 293 were doing the assessment functions and 205 were on non-assessment charges.

**2.3.3** For the audit of export promotion schemes, the audit universe comprises of the Directorate General of Foreign Trade (DGFT) which is an attached office of the Ministry of Commerce and Industry and is headed by Director General of Foreign Trade. DGFT is responsible for formulating and implementing the Foreign Trade Policy with the main objective of promoting India's exports. The DGFT issues scrips/authorization to exporters and monitors their corresponding obligations through a network of 38 regional offices and an extension counter at Indore.

**2.3.4** The schemes which are implemented through Special Economic Zones (SEZ) and Export Oriented Units (EOU), are audited at the office of respective Development commissioners of SEZ/EOU. The Customs audit is also responsible for annual certification of accounts of seven public sector SEZ<sup>5</sup>.

## **2.4 Access to auditee data**

Audit relies on Customs transaction data to draw assurance<sup>6</sup> that laws have been applied correctly to prevent loss of revenue. Lack of full access to pan-India data limits the audit scrutiny to test check of transactions and a limited assurance in certifying revenue receipts.

Data requisitioned by audit for import and export transactions in 67 Commissionerates for the year 2017-18 was received with much delay from CBIC, and that too with many gaps and deficiencies. The deficiencies were brought to the notice of the CBIC in February 2019, for which the response is still awaited.

In the absence of full data, audits were carried out in the field by physically visiting the 38 Commissionerates.

The instances mentioned in this Report are those which came to notice in the course of test audit conducted during the period 2017-18. Audit has, to the extent possible and based on the findings in test check, quantified total number of transactions at risk, based on the data that has been provided by the department.

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<sup>5</sup> Santacruz Electronics Export Processing Zone (SEEPZ), Kandla SEZ, Madras SEZ, Cochin SEZ, Visakhapatnam SEZ, Noida SEZ and Falta SEZ

<sup>6</sup> 'expressing a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria'

## 2.5 Audit Sample

Test check of transactions was carried out in 38 out of 67 (57 per cent) Commissionerates in 11 selected zones. The audit of commissionerates involved audit of 142 assessment units and 90 non-assessment units.

Audit of licenses under various schemes of FTP granted by the DGFT through its regional licensing authorities was done in 37 out of 38 licensing authorities.

**Table 2.1 : Audit Universe and Sample**

Audit Universe			Audit Sample
	Audited Entity	Total	
Department of Revenue	Chief Commissionerates combined Zones (customs and GST)	23 <sup>7</sup>	11 (48 %)
	Principal Commissioner/ Commissioner	67	38 (57 %)
	Assessment units	293	142 (48%)
	Non-assessment units	205	90 (44%)
	Regional Licencing Authority	38	37 (97%)
Department of Commerce	Regional Licencing Authority	38	37 (97%)

## 2.6 Audit Efforts

**2.6.1** During FY 2017-18 we issued 479 inspection reports to the respective Commissionerates/Regional licensing authorities containing 2715 observations and carrying a revenue implication of ₹ 1,363 crore.

**2.6.2** We issue significant and high value cases noticed in audit to the Ministry for comments before inclusion on the Audit Report. This report contains 91 audit observations with revenue implication of ₹ 590 crore noticed during FY 18. The remaining cases are being pursued by respective field formations. In addition a long paragraph involving money value of ₹ 4205 crore, on persistent irregularities regarding non-fulfilment of export obligations by the licence holders of export promotion schemes noticed consistently during audits has also been included in this report.

**2.6.3** The Ministry has taken rectificatory action involving money value of ₹ 368 crore in respect of 79 paragraphs in the form of issue of show cause notices, adjudication of show cause notices and has reported recovery of ₹ 18 crore in 42 cases of incorrect assessment of Customs duties.

**2.6.4** Anti-dumping Duties are imposed by the Government on such imports which are causing injury to the domestic industry and to re-establish a situation of open and fair competition in the Indian market, which is in the general

<sup>7</sup> (Customs Zones-11 + Combined (Customs + GST)-12 Zones)

interest of the country. We have examined Customs procedures regarding levy and collection of Anti-dumping Duty and the findings with revenue implication of ₹ 86.69 crore are reported in Chapter III.

**2.6.5** In Chapter IV we have reported significant findings noticed during test check of Bills of Entry and other records at selected Commissionerates with a revenue implication of ₹ 88.42 crore. The audit findings generally pertained to incorrect classification of imports; incorrect application of exemption notification and non-fulfilment of conditions of notifications.

**2.6.6** Persistent irregularities, especially the issue of non-fulfilment of export obligation which seems to be widespread needs to be addressed by the Director General of Foreign Trade, New Delhi and Central Board of Indirect Taxes and Customs as well as appropriate action to recover the duty saved in cases pointed in Audit needs to be taken. In Chapter V we have reported 1043 paras of non-fulfilment of export obligation which have been regularly pointed out by Audit since 2000 and for which no action has been taken by the Ministry. The issue of non-fulfilment of EOs along with several systemic deficiencies were pointed out in an earlier performance audit of the EPCG scheme for the period ending March 2011 reported in Audit Report No.22 of 2011. The recommendations of the CAG contained in this report have been accepted by the Government. However, since the deficiencies in the implementation of EPCG scheme seem to continue as evidenced in transactions audit of the EPCG licenses, a follow-up audit of EPCG scheme was done in a few selected RLA offices to examine the implementation of the scheme after the Government accepted the CAG's recommendations in the earlier Performance Audit Report of EPCG scheme. The findings of the follow-up audit are reported in Chapter V.

**2.6.7** In Chapter VI we have reported irregularities in sanction of expenditure noticed during certification audit of Santacruz Electronics Export Processing Zone (SEEPZ), Mumbai.

## **2.7 Revenue Impact of Audit Reports**

**2.7.1** In the five reports pertaining to FY 2013-14 to FY 2017-18 we have included 570 audit paragraphs (**Table 2.2**) involving ₹ 9,533 crore. Government has accepted observations in 454 audit paragraphs involving ₹ 548 crore and has recovered ₹ 92 crore in 291 paragraphs.

**Table 2.2 : Revenue Impact of Audit Reports**

Year	Paragraphs included		Paragraphs accepted		Recoveries effected	
	No.	Amt.( Cr.₹)	No.	Amt. (Cr. ₹)	No.	Amt.(Cr. ₹)
FY14	154	2,428	137	46	78	17
FY 15	122	1,162	91	85	67	23
FY 16	103	1,063	70	19	54	15
FY 17	99	85	77	30	50	19
FY 18	92	4,795	79	368	42	18
<b>Total</b>	<b>570</b>	<b>9533</b>	<b>454</b>	<b>548</b>	<b>291</b>	<b>92</b>

